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THE POST OFFICE IN CRISES--A STUDY
OF REFORM POSSIBILITIES FOR A STUMBLING GIANT

by

James John Lantry

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THE POST OFFICE IN CRISES--A STUDY OF REFORM
POSSIBILITIES FOR A STUMBLING GIANT

BY

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Bachelor of Science

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A Thesis Submitted to the School of Government and
Business Administration of The George Washington
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Requirements for the Degree of
Master of Business Administration

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CHAPTER I

INTRODUCTION

Congress, the President, the Postmaster General, and much of the American public are currently choosing sides in a debate that may radically alter the course of the U.S. Post Office. Concern is prompted primarily by the size of the annual Post Office deficit and the reasons behind it.

Many feel that the best answer to Post Office problems lies in reorganization in the form of a government corporation. It is this basic question of reorganization that will be the major concern of this presentation. This issue will be examined from two directions. The bulk of the study will contrast the corporate form of organization with the present Cabinet level structure. Postal history, a recent report on Post Office organization, and current proposed legislation will be examined. Attention will then be shifted to a brief consideration of a privately operated Post Office. My intent in approaching the question from this second direction is not to conclusively establish the desirability of either public or private operation, but rather to suggest that such a question does exist, to prompt additional research into this area, and to suggest some possibilities for the future.

In pursuing the basic question of reorganization, the following additional issues will be examined:

1. How efficiently is the Post Office now being operated?
2. Is the Post Office essentially a business enterprise, a public service, or some combination of the two?
3. What is the nature of the postal deficit?
4. Should the deficit be financed through the general income tax structure or should steps be taken to remove the deficit and make the postal service self-sustaining?

In investigating these issues the focus will be on a broad view of management problems rather than a detailed examination of any particular problem. To this end, statistics will be used only inasmuch as they help to support the point being made.

Chapter II traces postal history from its inception to the mid-sixties and shows the development of a proud and dedicated service. Also shown, however, is an almost continuous concern with operating and financial problems.

Chapter III begins with a look at the Post Office as seen by former Postmaster General Lawrence F. O'Brien. It ends with the view of the President's Commission on Postal Organization. The two views are directly linked. O'Brien was the first to publicly suggest reorganization in a corporate structure. President Johnson established the Commission as a result of that suggestion and charged it with investigating organizational forms best suited to improving Post Office operations.

Chapter IV examines some of the legislative proposals that have arisen as a result of the findings and recommendations of the President's Commission. The treatment centers on the two bills presently being debated in the House of Representatives--H.R. 4, which proposes

reform within the present Cabinet structure, and H.R. 11750, which supports the corporation concept.

Chapter V switches to a brief consideration of private operation. As noted earlier, no attempt is made to justify either private or public operation. Instead, the question is submitted for further investigation. The chapter highlights some aspects of postal service in which the private sector seems eager to compete.

Chapter VI returns to a consideration of the basic research question and of the underlying issues relating to it. Again the dual approach to the basic question is used. Conclusions relative to the corporation versus cabinet question are well supported by previous chapters. The conclusion on the public versus private issue is neither well defined nor well supported. Nevertheless, it is included because I feel it is a point that must be considered and on which additional research is certainly warranted.

CHAPTER II

POSTAL HISTORY

Founding and Original Purpose

The history of postal service logically dates to the development of the art of writing. Quite naturally, once man had learned to write, he wished to communicate his writings to others. Except in the case of his family and closest neighbors this desire entailed a delivery service. As the Greek, Persian and Roman empires developed, the postal mode was the only means of long distance communications available. As such, it played an essential part in the political and military well-being of these nations. In the Middle Ages rapidly expanding commerce and learning made communications vital. Again postal service was the only method available.

The transition from the individual communications mentioned above to the concept of carrying mail from several senders to several receivers appears to have first arisen in thirteenth century France where it was run by merchant associations in cooperation with the State.¹ This service spread quickly throughout Europe and over the next few centuries all European countries established similar systems. It was from the English system thus formed that the U.S. mail service was started.

¹Report of the President's Commission on Postal Organization, Frederick R. Kappel, chairman (Washington, D.C.: Government Printing Office, 1968), Annex III, Sec. 1.2, p. 1.7.

The English system had been nationalized in the late sixteenth century to protect English political and commercial interests. It became a monopoly in the early seventeenth century to protect what had become a money making enterprise for the Crown. Little attempt was made to set up a postal system in the American colonies probably because such a venture was viewed as a sure loss. After the colonies had established systems of their own, however, England seized them and established a colonial postal monopoly in 1692. This was not so much an attempt to increase revenue as it was to retain political control of the colonies. This system expanded rather slowly and uneconomically until 1753 when Benjamin Franklin and William Hunter were appointed Joint Deputy Postmasters for North America.¹

Franklin introduced several innovations and efficiencies which put postal service on a much more effective and reliable footing. Even under Franklin, however, the system was not immune to criticism from the colonists. Perhaps its major weakness was that it was British at a time when anything with that label was unpopular. Another major complaint came from newspapermen. Under the British system the local postmaster was usually the editor of one of the local newspapers. This arrangement inevitably led to preferential treatment of that newspaper over all others. This situation reached the point that it took less than six months for William Goddard (a prominent newspaperman) to gain acceptance and set up a reliable independent colonial system which stretched from Casco Bay in Maine to Williamsburg, Virginia.² This

¹Ibid., p. 1.8.

²Ward L. Miner, William Goddard, Newspaperman (Durham, North Carolina: Duke University Press, 1962), pp. 111-136.

service was in effect more than six months before the Declaration of Independence and no doubt carried a good deal of correspondence vital to the formulation of that document.

In July of 1775 the Continental Congress took over both the British and the colonial systems and appointed Franklin (who had lost his British position because he sided with the colonists) as the first Postmaster General. Ratification of the Constitution in 1789 provided in Article 1, Section 8 that:

The Legislature of the United States shall have the power . . . to regulate commerce with foreign nations and among the several states . . . (and) to establish post offices and post-roads.

Although the postal organization remained essentially unchanged under the Constitution this choice of words is noteworthy. It appears that the Constitutional Convention viewed the Post Office as an adjunct to commerce. Its original placement in the Treasury Department further supports the view that the Convention was primarily interested in an efficient revenue producing organization.

Pre-1900 Years

The first fifty years of its existence (1790-1840) saw tremendous growth in the Post Office. The number of post offices increased from 75 to 13,468; the miles of post-roads grew from 1,875 to 155,739; and receipts rose from \$37,935 to \$4,539,265.¹ Much of this growth is directly attributable to the energies and resourcefulness of the first Postmaster General, Samuel Osgood, and his able successor, Timothy Pickering. Osgood identified and tried to correct such problems as

¹President's Commission, Annex III, Sec. 1.2, p. 1.11.

inadequate rate structure for various types of mail, competition by various stage drivers and private postriders, political patronage in appointing postmasters, and loss of revenue under the existing system which had the receiver of the letter liable for postage. In this last area he estimated about 50 per cent of the revenue was lost either through refusal of the letter by the intended recipient or by pocketing of the money by the carriers. His foresight in these areas eventually led to legislative establishment of the Post Office monopoly (on most mail) and the abolishment of the C.O.D. system in favor of pre-paid postage stamps (1847). Unfortunately, political patronage and a questionable rate structure plague the system to some extent even today.

By 1814 Postmaster General Gideon Granger (1801-1814) had turned the Post Office into the largest single business operation in the United States. His administration was so efficient in turning a profit that President Jefferson seriously considered earmarking the "postal profits" as a means of paying off the national debt!¹

The first half of the nineteenth century saw such developments as severance from Treasury and establishment of a separate Cabinet position for the Postmaster General (1829), declaring canals (1836) and railroads (1838) as official "post-roads," and transcontinental mail (1848). The picture was not all rosy however. During the early 1830's Postmaster General William T. Barry managed to run the system into financial distress. Contractors were not being paid and the Post

¹Arthur E. Summerfield, U.S. Mail (New York: Holt, Rinehart and Winston, 1960), p. 39.

Office had to go to commercial banks for loans. Proof that this was the result of the man and not the system was found when Barry was replaced by Amos Kendall in 1835. In less than two years Kendall paid off all debts, improved service and created a \$780,000 surplus in the Treasury accounts.¹

In mid-century the expanding lands to the west brought a change in Post Office philosophy. The postal system soon became a prime means of unifying the country and fostering its commerce. It was this background that finalized legislation creating a "postal monopoly" and created the concept of the Post Office as an agency of public service.²

Latter nineteenth century events included street letter boxes (1858), city delivery service (1863), uniform letter rates regardless of distance (1863), postal money orders (1864), and rural delivery service (1896).³ This period also saw the short but colorful life of the Pony Express. Founded to improve service to the west, this mode of transportation of the mails served successfully for eighteen months until the railroads reached the west coast and took over the service. By the turn of the century, the Post Office provided essentially the same services we know today, with the exception of parcel post. Unfortunately, inefficiencies had also crept into the system. There were 48 recorded deficit years between 1838 and 1899! Despite the original intent at revenue production the Post Office was well on its way to deficit financing as a way of life.

¹Ibid., p. 52.

²President's Commission, Annex I, Sec. 1.1, p. 9.

³Ibid., Annex III, Sec. 1.2, p. 1.11.

1900-1960 Developments

The early twentieth century is perhaps best described as the era of the public service outlook for the Post Office. It was viewed as being of high social value and importance and having as its main function the communication of intelligence. Because of this outlook there was little attempt in the early years to establish rates that covered costs for all classes. Deficit financing had high public acceptance (in regard to the Post Office) at the turn of the century. There appeared to be "little harm in imposing a small general tax in order to offset a slight difference between receipts and expenditures."¹ Even today, when the "general tax" is no longer small and the "difference" is no longer slight, there are many who strongly support this "public service" aspect above all else.

There were only two major new services originated during the 1900-1960 period. A postal savings system was initiated in 1911² and a parcel post service, including insurance and C.O.D., was started in 1913. Neither of these services enjoy the protection of the "postal monopoly" and thus compete directly with private enterprise. This competition is justified in the interest of greater convenience to the customer. Attempts at extending Post Office control to telephone and telegraph services were never successful. The last of several such attempts failed of Congressional approval in 1913. Even though many foreign postal services do incorporate these services, it is not surprising that this system never met approval here. After all, at the

¹H. T. Newcomb, The Postal Deficit (Washington, D.C.: Wm. Ballantyne and Sons, 1900), pp. 8-10.

²This service was discontinued in 1966.

time it was considered, the telephone and telegraph companies were making money while the Post Office, which had started out as a profit maker, was by then accepted as a public service running at what was considered an acceptable loss. This was explicit recognition of the principle that a government should only undertake those services which the private sector is unable to efficiently provide. Any "public service" aspects of the telephone and telegraph functions were felt better regulated than operated.

For the remainder of this period the emphasis was on improved service. Noteworthy in this regard was the first air mail service in 1918 and the adoption of the "airlift" concept for all first class mail on a space available basis in 1953.

Perhaps the first incident which brought public awareness of Post Office financial problems was the cut back to once a day delivery in 1950. This was announced as a temporary measure, but has now been in effect for twenty years!

In 1953 Arthur E. Summerfield became Postmaster General. He inherited a system with cash transactions of \$20 billion per year and not one certified public accountant on the payroll. Financial reports were hardly a management tool since they were some seventeen months behind current transactions. The organizational structure had some 40,000 postmasters reporting directly to Washington. At the Department level there was no research and development, no mechanization study, and no training program. Despite sweeping reforms that earned Summerfield the title "Father of the Modern Post Office," many of these areas are still targets of criticism.

Summerfield also recognized the importance of the human factor in Post Office efficiency. His elevation of the personnel function to the assistant secretary level was the first such move within the Government, although industry had taken that step many years before. Unfortunately the sincerity of his desire to help postal employees was always suspect because of the political climate that produced five Presidential postal pay raise vetos during his tenure.

Summerfield deplored the postal deficit and felt that the Post Office could and should pay its own way. He recognized however that this could not be done as long as there was such a large degree of Congressional control and influence by lobbying groups of large mailers.¹ Unfortunately this control and influence remains today.

The Postal Policy Act of 1958 was an attempt by Congress to acquire the better parts of two different worlds. In it they specifically declared that the Post Office was a public service and not a business. Nonetheless they went on to say that it should be a self-supporting endeavor and that each class of mail should as far as possible carry all costs associated with it. As will be shown later there is much debate over this business versus public service question and over the public service portion of the postal deficit.

1960's

J. Edward Day was President Kennedy's appointee as Postmaster General. This selection was important in at least one major respect. Except for Harry Truman--the only President in history to appoint a

¹Summerfield, U.S. Mail, p. 100.

career postal official to head the Post Office Department--every President for the thirty years prior to Day's appointment had appointed the national chairman of his party. Often these men continued to hold that position also and devoted considerable time to it, using the Post Office as merely a political platform. Day's selection was seen by many as the beginning of the end of the patronage system. Unfortunately this hope was premature. As Day himself quickly found out, the Post Office was still the source of political rewards. The only change was that they were not handled by the Democratic National Chairman but by Bobby Kennedy, the Attorney General.¹ Day properly fell into line and devoted his time to improving day to day operations (with the neglect of deeper problems). His major contributions were the introduction of ZIP codes and the Accelerated Business Collection and Delivery (ABCD) systems for faster routing of intracity mail.

After the relatively quiet tenure of John A. Gronouski, the system got the strong jolt it needed when Lawrence F. O'Brien was seated as Postmaster General. In the space of his two and a half year tour of duty, O'Brien managed to convince many of the right people that the Post Office in its present form was a system of "no control" and that neither he nor anyone else could effectively manage it. His suggested solution was the formation of a government owned corporation to run the postal service. It was O'Brien's bold stand on these issues

¹J. Edward Day, My Appointed Round (New York: Holt, Rinehart and Winston, 1965), pp. 8-9.

which led to the formation of the so called "Kappel Commission,"¹ which will be studied in Chapter III, and to the subsequent legislation which is now pending in Congress.

¹Popularly referred to as the "Kappel Commission" in honor of its chairman, this commission is properly titled "The President's Commission on Postal Organization."

CHAPTER III

O'BRIEN, KAPPEL AND THE TVA

Postmaster General O'Brien

Lawrence F. O'Brien was certainly not the first Postmaster General to seek (and in some cases attain) a better postal service. Neither was he the first to suggest a change in Post Office organization. His contribution was to recognize that unless the entire system was reorganized, day-to-day improvements were not likely to solve deep seated problems, nor, in his opinion, even allow the service to continue. It was a lack of management control that O'Brien saw as the root of Post Office problems. This "no control" phenomena is best summed up in his 1967 exchange with the chairman of the House Postal Appropriations Subcommittee:

Mr. Steed: General . . . would this be a fair summary: that at the present time, as the manager of the Post Office Department, you have no control over your workload, you have no control over your rates of revenue, you have no control over the pay rates of the employees that you employ, you have very little control over the conditions of the service of those employees, you have virtually no control, by the nature of it, of your physical facilities, and you have only a limited control, at best, over the transportation facilities that you are compelled to use--all of which adds up to a staggering amount of "no control" in terms of the duties you have to perform. . . .

Mr. O'Brien: Mr. Chairman, I would have to generally agree with your premise . . . that is a staggering list of "no control." I don't know /whether/ it has ever been put that succinctly to me. If it had at an appropriate time, perhaps, I wouldn't be sitting here.

Later, in that same year, O'Brien had reached the conclusion that "no human being can efficiently manage the nation's postal service as it is now constituted."¹ He went on to suggest that the best way out was to remove the Post Office from the Cabinet and set it up as a government corporation. The importance of investigating this concept was rapidly conveyed to President Johnson who, by Executive Order 11341 of April 8, 1969, established the President's Commission on Postal Organization to examine the postal service. O'Brien left office in late April 1968, shortly before the Commission published its final report.

Since returning to private life,² O'Brien has been busy gathering support and speaking throughout the country on behalf of the Commission's recommendations and resultant proposed legislation. Recently he helped form the Citizens Committee for Postal Reform. He and former U.S. Senator Thruston B. Morton are the National Co-Chairman of this Washington based organization which was established to lobby for total postal service reform in the form of a government owned corporation.

The Kappel Commission

Inception, Composition, and Methodology

As noted earlier, the President's Commission on Postal Organization (commonly called the Kappel Commission) was created on April 8,

¹Lawrence F. O'Brien, Remarks before the American Society of Magazine Editors and Magazine Publishers Association, Washington, D.C., April 3, 1967.

²Actually O'Brien served as Democratic National Chairman until January 1969.

1967 by an executive order from President Johnson. Its task was to conduct an extensive review of the American postal service and in particular to "determine whether the postal system as presently organized is capable of meeting the demands of our growing economy and our expanding population." To pursue this work the President appointed the following men to the commission:

Frederick R. Kappel--Chairman
Chairman, Board of Directors (retired)
American Telephone and Telegraph Company

George P. Baker
Dean, Harvard University
Graduate School of Business Administration

David E. Bell
Vice President, The Ford Foundation

Fred J. Borch
President, General Electric Company

David Ginsburg
Partner, Ginsburg and Feldman

Ralph Lazarus
Chairman, Board of Directors, Federated Department Stores

George Meany
President, AF of L and CIO

J. Irwin Miller
Chairman, Board of Directors, Cummins Engine Company

W. Beverly Murphy
President, Campbell Soup Company

Rudolph A. Peterson
President, Bank of America

Murray Comarow--Executive Director
Executive Director of the Federal Power Commission

Faced with a one year deadline, the Commission decided to assemble a small staff and to let contracts to major consulting firms

to develop needed information. The major emphasis in all studies performed was on the general problem of organization and management of the postal service. The specific approach taken was to use a large general consulting firm to study every facet of the system and to couple this with additional contracts to consultants with special knowledge in the five major areas of study (personnel administration, financial management, rates and ratemaking, the nature and mix of postal services, and postal technology). Commissioners and staff assistants worked closely with all contractors as their reports developed.

In addition to the contractors, the commission made use of personal interviews, visits, and public hearings. Interviews were held with top Post Office officials, officials of other government corporations, numerous Congressmen, and leaders of all postal unions. Many leaders in the business and academic worlds also submitted written views to the commission.

Visits were made to post offices throughout the country, to companies with operations similar to those of the Post Office, and to large mail users. At the Commission's hearings, the views of all parties interested in postal affairs were actively solicited. Among those testifying were union officials, individual employees, mail user's associations, publisher's groups and private mailing services. A "Notice of Inquiry" was printed in the Federal Register and also distributed directly to 147 labor organizations, businesses, charitable groups and similar organizations.¹ This notice described the work of

¹Report of the President's Commission on Postal Organization, Frederick R. Kappel, chairman (Washington, D.C.: Government Printing Office, 1968), p. 194.

the Commission and provided a general list of issues to which answers were being sought.

Findings of the Commission

The complete findings of the Kappel Commission are published in its final report, entitled Towards Postal Excellence. Detailed background for those findings is found in the contractor's reports which are published as separate annexes to the final report. The findings are categorized in three basic areas: quality of service, circumstance of employment, and postal finances.

Quality of Service

The basic Commission finding in this area is that the Post Office does not have a reliable means of estimating customer satisfaction. Until recently it conducted no market surveys and based its quality rating almost exclusively on the number of complaints it received.

Although delays in delivery, erroneous deliveries, damaged parcels, and lost magazines are a daily occurrence throughout the system, the average household appears satisfied with the service it receives. The error rate seems low enough that the vast majority of individuals are not often subjected to inconvenience of any magnitude. The basic attitude seems to be that six cents buys fairly reliable two to three day service anywhere in the country and that such a standard is quite acceptable.

In households that are heavy mailers and especially in businesses the story was different. These mailers frequently rely on

dependable mail service and suffer financial losses if that expectation is not met. The Post Office has recently inaugurated a series of conferences with its heaviest mailers to discuss problems of service, but the situation is still a long way from solution.

Aside from day to day inadequacies, there is the question of what Larry O'Brien referred to as the Post Office's "race with catastrophe." This phrase envisions regional or perhaps even total breakdown of the entire postal system under the weight of ever increasing mail volume. Dealing as it does with the future, the Commission's conclusions here are indecisive. Several local breakdowns are cited, the most publicized one being that which occurred in Chicago in 1966. On that occasion, breakdowns in physical plant and management authority crippled the world's largest single postal facility. Over ten million pieces of mail were backlogged for nearly three weeks before the situation was cleared up with the help of a special Departmental task force.¹

These major breakdowns are rare, however, and complete collapse of the system is not foreseen. Even under the heaviest estimates of volume increase, the postal service will not require a significantly greater portion of federal funds or personnel.² It is also conceded that early warning systems now being implemented by the Post Office will do much to prevent the recurrence of "Chicago-type" disasters.

A major cause of both day to day service delays and of more serious breakdowns is the "daily peak" problem. Because of the

¹Ibid., Annex I, p. 144.

²President's Commission, p. 11.

tendency of businesses to deposit all their mail late in the day, most mail must be processed by the Post Office during relatively brief time spans in the evenings at one end and in the early morning at the other. While there are numerous factors which account for this problem, the Commission attributes most of the blame to the Department's goal of "next day delivery" for all first class mail. The concern is that this goal may be unnecessarily costly to the system as a whole. Senders of first class mail do not necessarily need overnight delivery of all their mail. Much of it is not urgent and a dependable normal service of two, three, or four days would suit their needs.¹ On the other hand, some of it is urgent and one day service is desired in those cases. By treating both segments of first class mail the same, the intended goal is never reached. Only 71 per cent is actually delivered the next day whether urgent or not.

A possible solution appears to be the adoption of a divided first class structure in which only urgent mail would get overnight service. All other mail would get normal service, hopefully on a more dependable basis since the peak volume period could be more evenly spread throughout the working day. Those who desired the special overnight service would of course have to pay some additional charge. During a recent interview, Postmaster General Winton M. Blount went on record as favoring this type system which, he noted, has met with great success in England.²

¹This was the finding of Arthur D. Little, Inc. through a limited market survey run for the Commission.

²"Blount Would Adopt Britain's Tuo-Tier Mail Plan," The Washington Post, October 5, 1969, p. A22. .

Circumstances of employment

The Kappel Commission found conditions in the personnel area of far more concern than the aspects of inadequate service just discussed. Here they found the Post Office employing 716,000 employees under conditions far below the standards in private industry. From the time he applies for a job to the time he retires (or quits) the individual employee is subjected to archaic recruiting and selection processes, political interference, lack of training, poor promotion opportunities, erratic work schedules, and poor work environment.

Present selection processes are a combination of Civil Service and Post Office regulations. The red tape involved in the procedure results in a lapse of thirteen or more weeks between the initial application and the actually hiring (or job offering). In a recent Post Office study, it was found that 67 per cent of those finally offered jobs refused them.¹ The main reasons given were that they had gotten other employment in the meantime, or that the job offered (usually a substitute position) was unattractive.² Thus, the personnel office devotes a great deal of time to processing applications for people that are never hired.

Politics has always been a big factor in the personnel picture of the Post Office. As noted earlier, the Postmaster General has frequently been the national chairman of his party and has often continued to hold that office while carrying out his Post Office duties. Most of these men had other ambitions and used the Post Office as a stepping

¹President's Commission, p. 16.

²Ibid., p. 105.

stone. Thus the median tenure in office during this century has been only thirty-one months.¹ This discontinuity of leadership is cited by the Commission as one of postal management's most serious problems.

The Deputy Postmaster General, the six assistant Postmasters General and the General Counsel are also Presidential political appointees, although there is heavy evidence that ability rather than political influence is the major factor in most cases. The remaining top level figure, the Chief Inspector, is named by the Postmaster General.

Theoretically, 1938 marked a great improvement in the appointing of postmasters. In that year legislation was passed that gave postmasters Civil Service status upon Senate confirmation of their appointment.² There was of course still the initial appointment to contend with, but postmasters, once appointed, no longer had to submit their resignations upon the arrival of a new administration. The filling of vacancies is now handled by an "Advisor" system. The advisor is a political figure of some description knowledgeable in the geographical area of the vacancy (e.g., a local Congressman, Senator, Governor, or state or county chairman). Despite various qualification criteria, an aggressive advisor can almost always succeed in getting his selectee approved. It is to the credit of some advisors that they do not wield their power in the selection process and instead ask the Post Office to select the best men for the job.

Further damaging the postmaster setup is a strict residency requirement. To qualify, an aspirant must reside within the delivery

¹Ibid., p. 40.

²Ibid.

area of the post office with the vacancy. This requirement severely limits the number of applicants in many small jurisdictions and, more importantly, blocks the transfer of a successful postmaster to a position in a larger city.

The selection of rural carriers follows a similar patronage process. These appointments are actively sought since they are normally part time responsibilities paying well above the median income in the areas they serve.¹

A more subtle aspect of political influence occurs in the labor-management relations area. Here the Post Office guidelines are those of all federal agencies and are contained in Executive Order 10988.² This order was undoubtedly a step in the right direction since it was the first formal pronouncement of a federal policy on labor-management cooperation, but it fell short in the Post Office because the most vital items were not negotiable. Thus, with issues such as pay, hours, and job descriptions within the purview of Congress rather than the Post Office Department, its 620,000 (87.5 per cent) unionized members prefer to deal directly with Congress. Union leaders have developed into highly skilled lobbyists rather than union negotiators.

Although millions are spent on training each year, the program is inadequately managed and too widely decentralized. Less than one day per employee per year is devoted to training and about half of

¹While political patronage in the selection of postmasters and rural carriers was a finding of the "Kappel Commission" it should be noted that Postmaster General Blount has announced his intent to eliminate this system.

²Replaced by Executive Order 11491, effective January 1, 1970.

that time is on the employee's own time.¹ The amount of training varies from post office to post office running from virtually none to adequate. Quality of training follows a similar continuum. Since the Kappel Commission, steps have been taken to improve the training situation but it is still considered a major problem. With an annual turnover of close to 200,000 employees, such a problem can hardly be regarded lightly. The establishment of the Postal Service Institute (January, 1968) to supervise a centralized and standardized program of training was a major step in the right direction.

The present promotion system within the Post Office acts almost as a bar to incentive. About 85 per cent of all postal employees are in the lowest 5 pay levels with a top annual pay of about \$8,100 (level 5 with 21 years of service). Eight of ten leave the service at the same level at which they started.² Many promotions to supervisory positions are turned down because the small addition in pay is not felt adequate compensation for the added responsibility assumed. A loss of seniority at the new level also results in assignment to less desirable working schedules. Residency requirements and political influence at the postmaster level further restrict incentive.

A seniority system for selection of working schedules has made the already pressing peak volume problem even worse. The twenty-four hour work day is divided into three basic tours:³

¹President's Commission, Annex I, part 2, p. 54.

²Ibid., p. 106.

³Ibid., p. 108.

Tour 1--12:00 midnight to 8:00 AM (mostly to process incoming mail)

Tour 2--8:00 AM to 4:00 PM (processing low priority mail and delivering mail)

Tour 3--4:00 PM to 12:00 midnight (processing outgoing mail)

Tour 3 is the busiest, followed in order by tour 1 and 2. Senior employees have their choice of schedules and chose the daylight tour by a wide margin. Obviously this leaves the least experienced people working at the busiest times. Substitute and temporary employees are particularly susceptible to being assigned to tour 1 or tour 3 and to being given fluctuating and uncertain schedules. It is little wonder that their turnover rate is so high (32 per cent for career substitutes and 90 per cent for temporaries) when compared with the 9 per cent figure for career regulars.¹

A final point for consideration is that of postal physical working conditions. Aside from productivity factors such as inadequate room and equipment, complaints are frequently voiced by employees about inadequate lighting, inadequate heating, lack of air conditioning, lack of sanitation in eating areas and inadequate and unsanitary rest room facilities. While this may appear to be a list compiled by any group of employees, the difference is that in the Post Office it is all true. Many active post offices were built in the 1930's or before and suffer all the ills of any forty year old building. The Raleigh, North Carolina building is ninety years old and shows only two major improvements--installation of electricity

¹Ibid., p. 109.

and indoor toilets.¹ Despite a rise in the number of female employees many post offices have no toilet facilities for women.²

The railroad was the primary mail carrier during the years when these post offices were constructed. Consequently, they were built in downtown areas which, in most cities, have become less than desirable places to work. With the persistent rise in street crime prevalent in almost all our cities, the situation is particularly troublesome to women employees at night. During the winter months, all three tours must do some travelling during hours of darkness.

Postal finances

It is in the area of finance that the "no control" phenomena alluded to earlier is most prevalent. Management is so diffused by the present system that one of the Commission's contractors insists that a clear distinction be drawn between the terms Post Office Department and Postal Complex. The former term refers to the Executive Department only, while the latter includes all agencies who together with the Post Office Department actually manage the postal service.³ The Postal Complex includes Congress, The Civil Service Commission, the Civil Aeronautics Board (CAB), the Interstate Commerce Commission, the Bureau of the Budget, the Treasury, the General Accounting Office and the General Services Administration. After briefly noting the area of control of each of the other participants, the discussion

¹N.Y. Times Magazine, November 3, 1968, p. 35.

²Ibid.

³This distinction is used by Arthur D. Little, Inc.

here will concentrate on Congress since it has ultimate control over all financial functions.

The Civil Service Commission has no direct control influence on postal finances. As noted earlier, its concern is with the regulations which govern Post Office recruiting, skill differentiations and the like.

The Civil Aeronautics Board (CAB) certifies the eligibility of carriers to transport air mail. This certification is normally limited to scheduled airlines operating between major cities. To fill existing gaps in this service the CAB has recently begun authorizing "air taxi" service between smaller cities and towns. The rate of compensation to the carrier is also set by the CAB.

The influence of the Interstate Commerce Commission on mail by rail is similar to that of the CAB, but with the decline of the use of railway mail service, its impact is lessening. The major issue now is probably that of the rail service itself. The ICC makes continuous efforts to persuade the Post Office Department to make more use of this mode.¹ The ICC also controls the rate setting for fourth class mail, but this control has been merely statutory in nature with the ICC going along with Post Office recommendations in all cases.

The General Services Administration is charged with the responsibility of managing and maintaining all federal buildings and with establishing regulations for procuring, maintaining and disposing of government property. In many cases the property regulations published severely restrict the flexibility of Post Office management.

¹President's Commission, Annex III, p. 3-12.

Their building standards add substantially to cost without any special concern for the unique requirements of postal facilities.

The General Accounting Office's role is quite narrow. It functions as a Congressional "watchdog" for all government agencies and gets into the actual financial management area only in an advisory capacity except in cases of flagrant violations of good management practices.

The U.S. Treasury foots the annual Post Office deficit. Revenues produced through postal operation are paid into a Postal Fund in the Treasury but are not available for use by the Post Office. All operating expenses must be appropriated through Congressional action. The difference between revenue and expense is paid from the Treasury as the postal deficit.

The Bureau of the Budget provides a link between the Post Office Department and the Congress. Early in the budget cycle its role is advisory. Essentially it informs the Post Office how much is "likely to fly" this year. Later it enters a fiscal phase. Here the proposed Post Office budget must compete with the budgets of all other agencies and must be weighed for its impact on the overall fiscal policy desires of the President. Once the final budget gets to Congress the BOB assumes a role of advocate for each agency's budget.

Congressional influence ranges from broad policy decisions to concern for day to day postal operations. Indeed as a federal agency the Post Office Department owes its very existence to Congressional legislation. Any proposed new activity must first be authorized by

Congress. Even then, of course, it can't be undertaken until funds are appropriated through separate legislation.

Through the budget process, Congress controls all Post Office operating funds. As is the case when BOB is preparing the budget, Congress attempts to concern itself with a wide range of national priorities when dealing with appropriations. This concern has constantly hurt the capital budgeting aspect of the Post Office. When faced with a need to cut the budget, Congressmen inevitably favor day to day operations over capital expansion. This short sighted approach has pushed modernization of the Post Office far behind its own desires. Estimates at the time of the Kappel Commission placed the required figure for needed capital improvements at \$5.4 billion.¹ In an attempt to keep up with its need, the Post Office has undertaken a large leasing program. The annual leasing figure has had a great deal more success in Congress than the large lump sum construction figures previously attempted. The lease versus buy decision is never an easy one, but should be undertaken on the basis of expediency only in extreme cases. Apparently the Post Office feels it has reached this extreme. A recent estimate places the annual leasing costs at 11.1 per cent of the total cost of the facilities themselves (design and site included).² Even in today's tight money market the cost of borrowing is well below that figure.

Aside from its budgetary controls, the Congress also exerts major influences in rate setting and employee compensation. With the exception of parcel post (an ICC concern), Congress controls the postage

¹Ibid., Annex I, part 3, p. 26.

²Ibid., Annex I, part 3, p. 170. .

rates on all mail. Although the basic intent is to equate cost and revenue, the long history of postal deficits shows that this ideal has not often been realized. The important point, however, is that Congress, and not the Post Office, controls the major source of postal revenue.

Postal pay rates are also controlled by Congress. With between 75 per cent and 80 per cent of Post Office costs going to payroll and related benefits, this gives Congress control of the major postal expense item also.¹

The combination of influences exercised by the postal complex has left the Post Office in a position where, instead of managing, it administers policies, rates, and procedures established by others. This condition is seen by the Kappel Commission as the main reason for the present postal deficit.

Foreign systems

As a part of its work, the Kappel Commission conducted a limited study of foreign postal experience. The intent of that study was to determine their degree of economic or business orientation. Fourteen systems were studied² and the conclusion reached was that the foreign systems were far more business oriented than our own.³

¹Ibid., p. 100.

²Belgium, Denmark, France, Great Britain, Ireland, the Netherlands, Norway, Sweden, Switzerland, West Germany, Australia, Canada, New Zealand and Japan.

³President's Commission, p. 183.

Great Britain, Sweden, Switzerland, and West Germany were especially business oriented in organization. Since the Commission's report Great Britain has made its postal service a government corporation.¹ West Germany has a similar proposal under consideration. The Swedish Post Office is run by a board of directors. All the other countries have a single permanent professional who reports to his political body only for general policy guidelines.

Twelve of the fourteen operate completely from their revenues and cover, in addition to normal expenses, some sort of return on capital invested.² These twelve countries do have subsidized classes of mail but prefer to make up those losses from other classes rather than resort to tax revenue.

Rate setting in all countries except Canada is more of an administrative procedure than a political struggle.³ In general rates are set to cover costs. In those countries that do require approval by some sort of political body, the procedure is largely perfunctory. Politicians appear content not to meddle in their postal system so long as it covers costs and does not act to arouse public complaints.

Recommendations of the Kappel Commission

After completing its study, the Kappel Commission submitted a report with five major recommendations:

¹This change was effected in October 1969 and is therefore too new to evaluate. It should be remembered however that the British Post Office includes telephone and telegraph services.

²Our system does not provide a charge for capital investment.

³President's Commission, p. 185.

1. A Postal Corporation owned entirely by the Federal Government should be chartered by Congress to operate the postal service on a self-supporting basis.
2. The Corporation should take immediate steps to improve the quality of service, and the physical conditions under which postal employees work.
3. Political patronage should be abolished.
4. All present employees should be transferred with their accrued Civil Service benefits to a new career service within the Corporation.
5. Rates should be set by the Corporation's governing body after hearings by expert Rate Commissioners, but should be subject to veto by a concurrent resolution of Congress.¹

Recommendation 1

The proposal to establish a Postal Corporation is, of course, the most basic of the five and provides the framework for all the others. It rests on two critical assumptions and at least one major Commission prejudice. The assumptions are that the postal service is a business rather than a public service and that the "public service" portions of the postal deficit are presently greatly overstated. The prejudice is that all but three of the Commissioners were highly successful businessmen. One of these three was the Dean of Harvard Business School and another a successful lawyer. The only member who was not business oriented was George Meany and it is interesting to note that he registered a mild dissent on the corporation recommendation. With the observation that such a commission, when charged with investigating possible alternative organizational forms, appears heavily biased toward the conclusions it reached, this prejudice will be left without further discussion. The assumptions, however, require additional explanation.

¹Ibid., pp. 1-4.

The Commission bases most of its argument about the Post Office being a business on the fact that it provides a service for a price. This is, in essence, the definition of a service industry. Most people consider the Post Office a vital service, but the Commission maintains that it is certainly no more vital than any presently existing public utility. It is into this class of endeavor that the Post Office should logically fit. The historical needs of a Post Office to form a united communications network for the entire country and to subsidize struggling new modes of transportation simply no longer exist.

Furthermore, in the service it does provide, it is heavily business oriented. Only 14 per cent of all mail involves correspondence from individual to individual and about half of that figure is made up of greeting cards. Less than 1 per cent is accounted for by parcels sent or received by individuals. By contrast, businesses originate almost 74 per cent of all mail.¹

Having assumed that the Post Office is a business, the Commission turns to a consideration of the postal deficit and, in particular, to the public service portion of that deficit. They first distinguish the postal deficit from such "deficits" as that of the Justice Department, the Department of Defense, etc. These "deficits" (financings of Government services) can usually be paid for only through general tax revenues, whereas the Post Office has the ability to raise substantial revenues from the very services it provides. Its deficit then, is simply the result of revenues failing to cover costs. Of course, some of this loss is due to true public services such as reduced rates for

¹Ibid., p. 48.

churches, the blind, etc. The Commission believes however that the extent of the public service element in the overall deficit is highly overstated.

The fiscal year 1967 figures that were studied showed a deficit of \$1.14 billion. Under present standards, nearly half of that loss (\$562 million) was attributed to public service subsidies. In contrast, the Commission believes the correct figure to be about \$240 million.¹ This discrepancy exists because of a redefinition in the areas of rural allowance, non-postal services, and special services.

The rural allowance is based on what the Commission believes is a mistaken concept that rural post offices lose money. While it is conceded that a strict measurement of cost against revenue will show a "loss" in many rural areas, the contention is that this "loss" should be considered a cost of the overall system. The rationale here is that part of the value of the postal system to a mailer is that it can reach these rural areas. This element, then, should be considered a subsidy to the system as a whole rather than a public service allowance to rural areas.

In addition to its postal functions, the Post Office performs a number of non-postal services for other Government agencies. Such services include registration of aliens, selling migratory bird stamps, and providing space for Civil Service exams. While in most cases some compensation is made to the Post Office for these services,

¹Ibid., p. 23.

there was a loss of \$26 million incurred during fiscal year 1967.¹

Clearly this element should not appear in any form as part of the Post Office deficit. If the services offered are such that they warrant being supplied at a loss, this loss should be borne by the agency involved, not the Post Office.

At present, special services such as registered mail, special delivery, C.O.D., etc. are also carried at losses written off as public services. The Commission attributes part of this loss to faulty accounting practices,² but in any case feels that the reasoning applied to rural post offices applies equally here. These services are part of the value of the total system and if they can't break even themselves, the rest of the system should support them.

Starting with the \$562 million originally attributed to public service losses and subtracting the three elements discussed above (rural allowance \$108 million, non-postal services \$26 million, special services \$62 million³), the Commission is left with a \$366 million public service subsidy. The method of calculating this figure is disputed. The Post Office uses a "full-loss" method which charges off the difference between the rate of the subsidized user and the fully allocated cost of the service. The point of contention is that even normal users of the mail classes in question do not cover fully allocated costs. The subsidy amount, then, is more properly calculated by comparing the

¹The particular practice in question here is the use of the Cost Ascertainment System. The value of this system has been questioned since its inception in 1924 but is not a necessary consideration in this paper and will not be discussed further.

²Ibid., p. 137.

³President's Commission, p. 139.

normal user's rate with the subsidized rate. Use of this criterion left the Commission with a total estimated public service figure of \$240 million. This final figure amounts to only 3.8 per cent of Post Office costs.

Having thus redefined the postal deficit, the Commission goes on to suggest that the subsidy element be handled in different ways. Their favored recommendation is that it be entirely eliminated from Post Office consideration and paid to the institutions benefiting in the form of a direct subsidy. For instance, with the vast amounts now going to federal aid to education, why tack on a relatively insignificant postal subsidy instead of just increasing the basic grant.

Recognizing, however, that the postal subsidy is deeply rooted in American tradition, the Commission proposes an alternative solution. It has Congress set the total size of the subsidy and provide general guidelines on administering it, but leaves the Post Office free to set the specific rate of subsidy. Further, it suggests that the cost of the subsidy be borne by the general mail user. This recommendation is justified in the interests of keeping Congressional involvement to a minimum. Financing through general tax revenues would serve to keep the door open for such involvement in many other areas. With the widespread use of postal services, the net result would approximate a general tax in any event.¹

With these underlying assumptions now clear, a further look at the Commission's first recommendation is in order. In deciding on the Government Corporation structure the Commission considered four other

¹Ibid., p. 142.

proposed forms: retention in Cabinet status, a postal agency, a government corporation with maximum private participation, and a regulated private corporation.¹

Cabinet status was rejected because it would not remove the influence of the postal complex. Despite the opportunity for much reform within its present structure, the Post Office would still be subject to such major restrictions as substantive and appropriations legislation and Congressional rate-setting.

The agency concept, although concentrating Congressional control in a "Joint Committee," still lacked complete managerial freedom from the postal complex. It too was therefore rejected.

The idea of a government corporation with private participation entails a widespread use of both private capital and private management. This structure would also entail a major emphasis on contract management. It was anticipated that bids would be sought and contracts awarded in such areas as construction (and possibly maintenance) of Post Office buildings, operation of sorting and distribution terminals, and the pickup and forwarding of intercity mail. Fear of the Post Office becoming a management agency (with a disproportionate amount of time spent on handling private contractors) in lieu of an operating agency led the Commission to reject this idea as well.²

The final form considered was that of a private regulated corporation. This would place the postal service on the same footing as existing public utilities such as electric companies and telephone

¹"Options Considered by the Kappel Commission," Congressional Digest, March, 1969, pp. 72-74.

²Ibid.

companies. This form found great favor with the Commission but had to be rejected for a practical reason. It was felt that no private investor would be willing (or able) to take on the postal service in its present condition. With estimates of \$5 billion needed for capital improvements and an annual operating loss in excess of \$1 billion it would be hard to quarrel with this conclusion.

The corporation form finally decided on involved management by a board of directors on a break even basis. It was the intent of the Commission that the corporation have the power to acquire and dispose of property in its own name, to be free from the appropriations process and live within its own revenues on a business-like budget, to borrow from the public as necessary to finance capital investments, and to set the rates of pay for its directors and other employees.¹ The specific organization suggested was a nine man board, with six part-time members appointed by the President, and three full-time members selected by the Presidential appointees. One of the latter three would serve as Chairman of the Board, and another as Chief Operating Officer of the new postal service.

The new corporation would be subject to the Government Corporation Control Act which governs all existing government corporations and to such government-wide policies as the Hatch Act, Equal Opportunity Employment, and conflict of interest laws.²

Comparisons of the proposed corporation with the Tennessee Valley Authority are frequently made. This is no doubt done because

¹President's Commission, p. 80.

²Ibid., p. 57.

of widespread knowledge of the TVA and of its success. In organizational form, of course, the comparison is quite valid. The same organizational comparison would, however, hold for most of the other twelve government corporations now chartered.¹ Many of these are lesser known and not nearly as successful as the TVA.

Two important distinctions exist however. One is a difference in financing and the other a difference in ideology.

Although the TVA does incorporate many of the tools of modern business management and is free in many ways from anything approaching a "TVA complex," it is still subject to the Congressional appropriations process.² This is a major departure from the Kappel Commission's envisioned set up.

The ideological distinction stems from a consideration of the basic issues involved. The TVA was a question of private versus public involvement. There were many who fought vigorously for a private development of the Tennessee Valley. They saw the final adoption of TVA as "a dagger at the heart of capitalism, free enterprise and the cherished concept of rugged individualism."³ Also to be noted is that

¹Bank for Cooperatives, Commodity Credit Corporation, Export-Import Bank, Federal Crop Insurance Corporation, Federal Deposit Insurance Corporation, Federal Intermediate Credit Banks, Federal National Mortgage Association, Federal Prison Industries, Inc., Federal Savings and Loan Insurance Corp., Panama Canal Co., St. Lawrence Seaway Development Corp., and the United States Housing Authority.

²C. H. Pritchett, The TVA--A Study in Public Administration (Chapel Hill, North Carolina: University of North Carolina Press, 1943), p. 235.

³David E. Lilienthal, TVA--Democracy on the March (New York: Harper Brothers, 1953), p. 11.

TVA is regional in nature and was begun only after years of private effort failed.

The Post Office is only remotely concerned with the private versus public consideration. Although private operation is not completely out of the question, the public nature of the Post Office has a 200 year tradition that will be hard to shake. The basic question here is the form of public control. Also in contrast is the Post Office's nationwide service.

Thus while a Post Office-TVA comparison is useful in pointing out what a government corporation is and especially how it is organized, the comparison should not go far beyond that point. Certainly TVA's success can not be any measure of the future of the proposed Postal Corporation.

Recommendation 2

Better service, improvements in the physical plant, and enhanced career opportunities for postal employees would, of course, be the goal under any organizational form. The need in these areas has already been discussed in the Commission's findings. The important point here is that the roots of failure have been attributed to the lack of an effective management system. In the Commission's view, the government corporation set up is the best practical solution to the "no control" problem.

Recommendation 3

The political patronage issue has become largely a moot point since Postmaster General Blount announced his intent to completely

abolish this practice. Unfortunately Blount hurt his push for the corporation plan by the method he chose for the patronage shift. Many Congressmen were alienated when they heard the public announcement before a word was said to Congress. Reaction was not so much against the death of patronage as it was against what was viewed as an usurpation of Congressional prerogatives.

Patronage will no doubt linger for a time, but when it goes completely, there will be little weeping in Washington. But for a handful of Congressmen, the system has been strongly opposed for years. From a practical standpoint the votes gained (or lost) by a political appointment are just not worth a Congressman's time.

Recommendation 4

The shift of all postal employees to a new federal career service is a point that has turned many postal unions against the corporation plan. An analysis of this opposition will be deferred until Chapter IV. Here we will consider only a description of the proposed change.

The basic intent of the new career service is to sever ties with Congress on critical employee issues. At the time of transfer, all accrued Civil Service benefits would be retained by the employee who transferred. Those that chose not to work for the corporation would be assisted in obtaining a position elsewhere in the Civil Service structure. Initial pay levels would be established in the corporation charter at the levels then existing in the old structure. After that point the influence of Congress would sharply wane.

Future pay, benefits, and related issues would become a matter of union-management negotiation.

A mechanism for third party arbitration (either binding or advisory) must also be built into the new service. The Commission allows that a variety of approaches are valid, but suggests that the National Labor Relations Board (NLRB) be used for representation and unfair labor practice questions, and the Federal Mediation and Conciliation Service (FMCS) for major contract questions and pay disputes.¹ In the event of an impasse, the issue would be referred to the President who would establish whatever ad hoc methods he thought appropriate.² In the Commission's view the uncertainties built into this final step would strengthen lower levels of negotiation.

The right to strike was dismissed on two counts. First, the disruption of a vital public service could not be permitted.³ Second, the conditions of public employment offer enough differential (from the private sector) in job security as to negate the need for the right to strike.

Recommendation 5

Again sticking to its intent of removing the Post Office as much as possible from the postal complex, the Commission proposed that rates be set by the corporation itself rather than by Congress. This move would give postal management direct control over its revenues and

¹President's Commission, p. 60.

²Ibid.

³Existing public utilities which do have the right to strike are always subject to federal intervention if such an event does occur.

make its task of break even operation far simpler. At the same time it would free Congress from involvement in the intricate details of determining postal rates.

The mechanism proposed would include an independent panel of technically proficient Postal Rate Commissioners responsible only to the corporation's board of directors. When the board foresaw the need for a change in rates, it would submit its proposal to these commissioners. After evaluating all accounting, engineering, and economic evidence available, the commissioners would render an opinion to the board. This opinion would then be accepted, modified, or rejected and a formal notice of a rate change prepared. To protect public interests from abuses in rate-setting, Congress would retain the power to veto the proposed change by concurrent resolutions of both houses. If the veto were not exercised, the proposed rates would become effective in sixty days.

Congress would of course outline broad policy guidelines for postal rates in the corporation's initial charter. These guidelines would include any subsidized classes the Congress wished to establish and a total subsidy limit. As noted earlier, this subsidy should be treated as part of the costs of the total postal service and should, therefore, be borne by an appropriate rate structure for unsubsidized users rather than through an appropriation to the corporation.

CHAPTER IV

CURRENT APPROACHES

Publication of the Kappel Commission report prompted Congressional response in the form of several reform bills. The second session of the 90th Congress saw two bills introduced in the Senate and one in the House of Representatives. The Senate bills laid the ground work for the struggle that was to follow. S.3726, introduced by Senator Monroney (D. Okla.), sought reform and modernization within the present structure, whereas S.4187, presented by Senator Hangen (R. Wisc.), was more in line with the basic changes suggested by Kappel and company. The single House effort, H.R. 19981, offered by Representative Wilson (D. Cal.), sought to obtain bond issuing authority for the Post Office, while retaining its Cabinet status.¹ Too little time was available for hearings and debate on these bills. Consequently, no action was taken in the 90th Congress.

Debate in the 91st Congress is concentrated on the question of organizational form. Everyone seems convinced that reform is necessary. It is merely the form and extent that are in conflict. Although both houses have bills under consideration, the House is much further along in its hearings. The concentration here will therefore be on the two House measures, H.R. 4 and H.R. 11750.

¹"Present Status of Proposals in Congress," Congressional Digest, March, 1969, p. 75.

The Postal Policy Act of 1969

In January of 1969 President Johnson officially supported the corporation reform proposal in his final State of the Union Message. Upon assuming office, President Nixon turned the plan over to his Postmaster General, Winton M. Blount. By May both had become convinced that the Kappel Commission's recommendations were sound. The President then sent the measure to Congress with his strong endorsement. Representative Morris K. Udall (D. Ariz.) introduced the bill as H.R. 11750, entitled the "Postal Policy Act of 1969."¹

Organization

The Administration's bill establishes "The United States Postal Service" under a corporate structure similar to that proposed by the Kappel Commission. The Corporation is to be run by a nine man Board of Directors. Seven of these will be appointed by the President, with Senate confirmation. These seven will appoint an eighth member, designated the Chief Executive Officer, who will serve at the pleasure of the Presidential appointees. The eighth will then choose an additional member, designated the Chief Operating Officer. He will be subject to removal by the other eight.

The presidentially appointed members are to serve seven year terms with the first seven to be designated for staggered replacement at one year intervals. They will serve part time and receive compensation at the annual rate of \$5,000. In addition, they will receive \$300

¹Details on this bill can be found in The Postal Service Act of 1969 which is for sale by the Government Printing Office in Committee Print form complete with President Nixon's introductory remarks and an analysis of the bill. The summary which follows is based largely on that print.

for each Board meeting they attend and will be reimbursed for necessary travel and subsistence expenses incurred in attending these meetings.

Both the Chief Executive Officer and the Chief Operating Officer will have their tour of duty determined by the rest of the Board. They will serve full time and be salaried as determined by the other Board members. A ceiling is imposed at Level I of the Executive Schedule, which is the present level of the Postmaster General (currently \$60,000).

Services

The Corporation will be charged with the responsibility of providing such service as the public may wish at rates which allow a break even operation for the Service as a whole. These include an efficient system of collection and delivery, establishment of mail classes which suit various groups of mailers, and the establishment of postal facilities at such locations that patrons will have ready access to essential postal services.¹ To accomplish these ends, the Postal Service will be empowered to prescribe postal rates; to provide needed facilities; to provide for sale of stamps and other postage payment measures; to provide philatelic service; to provide, alter, or abolish special and non-postal services; and to maintain an investigative arm to handle postal offenses and civil and administrative matters.²

¹U.S., Congress, House, A Bill to Revise the Laws Relating to Post Offices and Post Roads, and for Other Purposes, H.R. 11750, 91st Cong., 1st sess., 1969 (Committee Print No. 8), p. 27.

²Ibid., pp. 27-28.

Continuation of the military APO and FPO systems is authorized within the new service. Maintenance of international postal agreements is also authorized under the corporate name.

Personnel

Postal management will replace the Civil Service Commission and Congress as the mainstay of employee matters in the proposed Corporation. Hiring, firing, training, pay, and benefits will all become prerogatives of the Corporation.

All employees of the Post Office Department at the time the new Corporation goes into effect will be given the option of moving to a new job within the Civil Service framework or of transferring to the new service with retention of all accrued benefits.¹ Those who elect transfer will no longer have any connection with the Civil Service Commission in regard to their conditions of employment. They will, however, still be covered under the Civil Service retirement program, as will all new employees. All pay scales and conditions of employment in effect at the inception of the Postal Service will remain in effect until modified by proper collective bargaining. Political considerations are specifically excluded as a basis for appointments and promotions at any level in the service, and severe penalties are provided for violations of this provision. Residency requirements are also abandoned.

¹This provision does not apply to the Postmaster General, the Deputy Postmaster General, the Assistant Postmasters General, and the General Counsel, all of whose positions will simply cease to exist.

The language of the bill specifically releases Congress from any further involvement in the labor-management process. This would be the exclusive domain of the Postal Service and the employee unions. The Labor-Management Relations Act of 1947 would provide the basic guidelines for negotiations.

Although expressing an intent that the parties themselves set up procedures to handle disputes, Congress also provides a statutory system that could be used.¹ The proposed system is a nine member Postal Disputes Panel whose salaries and expenditures would be borne by the Postal Service. This Panel would consist of three members named by the Federal Mediation and Conciliation Director, three named by the American Arbitration Association, and three chosen by the first six.² On matters referred to it, the Panel would be free to select from a wide range of settlement techniques including such devices as mediation, fact finding, recommendations, or binding arbitration. In the event the issue went to arbitration, a three member arbitration board would be established. One member would be selected by the labor representative, one by the Postal Service, and the third by the first two. After hearing all pertinent evidence on both sides the board would issue a decision binding on both parties. In line with the Kappel Commission's recommendation, Postal Service employees would not be given the right to strike.

It should be reemphasized that the above dispute procedure is presented as a back up only. Congressional intent is that the parties set up their own system.

¹H.R. 11750 (Committee Print No. 8), p. 65.

²Ibid., p. 67.

Finance

H.R. 11750 attempts to sever postal finances from the budgetary process. In its charter the Corporation will be authorized to adopt a business type budget which will not be required to undergo the tedious appropriations process. Until the Service achieves its goal of self support, transitory appropriations will be necessary, but these grants will not subject the total budget to detailed scrutiny. Congress will maintain an overseer's position through an annual audit by GAO and a required annual report of operations from the Postal Service.

The initial accounts of the Postal Service will essentially be those of the Post Office Department at the time of the changeover. Specific details will be worked out by GSA, the Bureau of the Budget, and the Postal Service.

Free access to a revolving Postal Service Fund, to be established in the Treasury, will be available to carry out the duties prescribed for the Service. This fund will be credited with the balance in the Post Office Department Fund at the time of transfer and from that point on would be the repository of all receipts by the Postal Service. Neither the fund, nor any transitory appropriations paid to it, would be subject to fiscal year limitations or apportionment provisions.

To raise revenue over and above its normal receipts, the Corporation will be authorized to issue bonds up to an aggregate of \$10 billion. Annual issues will be restricted to \$1.5 billion increases up to the \$10 billion ceiling.¹ The amount of issue, date of sale, maturities, terms and conditions, and interest rates will be determined

¹Ibid., p. 75.

by the Postal Service's Board of Directors. Yield on the bonds will be calculated so as to be not less than that prevailing on outstanding Treasury issues of a similar maturity. All proposed issues will first be submitted to the Secretary of the Treasury who may elect to purchase them. The Postal Service may in fact require the Secretary to purchase obligations up to a total of \$2 billion.¹ All issues not purchased by the Treasury may be offered to other parties.

In the area of postal rates, H.R. 11750 specifies that the goal is to achieve equity of costs and revenue within the next five years. To this end, the determination of rates is left with postal management.

Classes of mail users who are to be given free or reduced rates will be established through legislation. In the case of the reduced rates, the actual charge will be set by the Corporation. To cover the losses for these classes, Congress will be asked to provide an annual appropriation to the Postal Fund. Should this appropriation not cover losses (rate charged as compared with normal rate), the Postal Service could adjust the rates of the privileged classes so that the appropriation did equal the loss.

Rates in effect at the time of transfer will remain in effect until changed by the Corporation. To provide the forum for orderly hearings on proposed rate changes a panel of three rate commissioners will be established. These commissioners will be chosen by the Board from a Civil Service register and will be appointed to six year terms. The initial three will serve two, four, and six years so as to permit

¹Ibid., p. 78.

staggered relief.¹ The salaries and expenses of the rate commissioners will be borne by the Postal Service.

When a rate change is deemed necessary, the Board will simultaneously publish a complete description of the change in the Federal Register and forward the same description to the rate commissioners. Public hearings will then be scheduled and parties concerned invited to testify before the commissioners or to submit written views. After the hearings the panel will submit an opinion to the Board. The final form of the proposal will then be submitted to both houses of Congress and again printed in the Federal Register. It will take effect sixty days after submission to Congress, unless disapproved by a concurrent resolution of both the House and the Senate.

Proposals for service changes and complaints about rates or service would be handled in a similar manner. All decisions would also be subject to judicial review if sought by an offended party to the proceedings. Any such actions would be brought against the Postal Service and not against the United States.

In the area of transportation, the Postal Policy Act of 1969 also provides for some broadening of authority. Much freer use of highway common carriers would replace the existing Star Route system which awards exclusive four year contracts and seriously reduces flexibility. Basic rates would be set by the Interstate Commerce Commission (ICC), but the Postal Service would be authorized to enter into special contracts at rates other than those provided for by the ICC.

¹Ibid., p. 87.

In the air, much greater freedom would be granted in areas where carriers were either not certified by the Civil Aeronautics Board (CAB), or where certified carriers were not providing adequate service. Where no certified carrier existed, the Postal Service would be authorized to negotiate whatever contracts it desired, without CAB approval. In the case of inadequate service, contracts with uncertified carriers would be subject to CAB review before becoming effective.

Interlude--Support and Opposition
to a U.S. Postal Corporation

As mentioned earlier, it is the basic question of organizational form, more than any other issue, that divides those working for postal reform. The corporation backers stress the business aspects while those who back the status quo stress public service considerations.

The line up has the President and Postmaster General in favor of the corporation while Congress at this point appears slightly balanced against it. Postal unions are opposed. The Chamber of Commerce of the United States and a new lobby, the Citizens Committee for Postal Reform, are in favor. Large mailers are split.

The Administration's position follows closely the Kappel Commission's thinking. The basic thrust is that the Post Office is primarily a business, and that the corporation concept embodies the best means of giving management the control and tools necessary to render the services which that business is charged with providing.

The Citizens Committee for Postal Reform can hardly take any course other than favoring the corporation plan. One of its co-chairmen,

Lawrence F. O'Brien, was the Postmaster General who first proposed the idea.

Corporation proponents point with great satisfaction to support from the National Chamber of Commerce and such large mailers as Time, Inc.¹ The Chamber of Commerce conducted a poll before taking an official stand and found that 96 per cent of their respondents favored the proposed organizational shift. Time expects to be hurt by higher rates at first but looks to long term gains through increased efficiency. The American Business Press (111 companies producing 537 publications) supports the plan on similar grounds. The Magazine Publishers Association (125 companies publishing 400 magazines) has not yet taken a stand on the issue.²

Newspaper associations have been far less active in the debate and are predominately undecided since the vast majority of newspapers are either home delivered or sold on the streets. The Wall Street Journal, however, does depend on the mails and it has come out in favor of the corporation plan.

It appears that the basic issue for second class mailers is one of cost. Those who see long term efficiencies outweighing possible increases in their rates, favor the Postal Corporation. Those who rely heavily on the present rates, tend to be opposed.

Third class users apply the same economic criteria. They are interested in the lowest possible costs for their bulk advertising.

¹Time, Inc. is the nation's largest private mail user.

²"Mail Carriers and Users in Conflict over Postal Plan," Congressional Quarterly, June 17, 1969, pp. 1-4.

Most associations in this category have not taken an official stand but there appears to be an undercurrent of opposition present.

The bulk of vocal opposition to the Postal Corporation resides in the employee unions. Their arguments are based on two main considerations. The first is in the area of service; the second in labor-management relations.

The unions envision the corporation pursuing its goal of break even operations with such fervor that it loses sight of the public interest. They point to the record of the Bell Telephone System which has monopoly rights over 80 per cent of the population but has chosen to serve only about 20 per cent by concentrating on large urban areas and refusing to go into the countryside.¹ Similar cutbacks in rural mail delivery are predicted. Several counters to this argument are put forth by corporation buffs. They believe that rural services, even though unprofitable in themselves, add greatly to the overall value of the postal service to its customers. They envision no cutback and point to structural safeguards in the proposed legislation. The Congress will charter the corporation and establish at that point what services are to be provided. Changes in these services would have to be submitted to public hearings by the rate commissioners and then approved by the Board of Directors before taking effect. This is, in fact, a far more stringent requirement than exists now in the Cabinet structure. At present, the Postmaster General is free to unilaterally curtail service without anyone's approval.

¹"Should Congress Proceed Now to Establish a U.S. Postal Corporation," Congressional Digest, March, 1969, p. 85.

Concern over labor-management procedures is also a reason for union opposition. The entire century to date has been spent building what has become a powerful lobby for postal employees. The corporation threatens that institution and faces the unions with the prospect of starting anew and having to develop new skills at the negotiating table. Union leaders feel that postal reform can improve their lot without forcing this change. They feel that if they lose their direct access to Congress they should be given something in return. Most are campaigning for the right to strike but some appear willing to settle for a direct access to binding third party arbitration with elimination of the intermediate Postal Disputes Panel now proposed. While the right to strike will not be easily won, there appears a good chance binding arbitration could be achieved if the corporation becomes fact.

Corporation proponents believe that, despite the change of orientation required, the unions would fare better under their plan. With the present personnel system as bad as described in the Kappel Commission report, there seems to be some value in their position. In addition, of course, they feel the new system is essential to effective management control of postal costs.

Strong opposition to the corporation is also found within Congress. Opponents here seem mostly concerned with preservation of Congressional influence in postal operations. At present, opposition is centered in Representative Thaddeus J. Dulski (D. New York), the Chairman of the House Post Office and Civil Service Committee. It is his bill, H.R. 4, which stands as the first major stumbling block to

corporation legislation. His position will be examined, with his bill, in the following section.

H.R. 4--An Alternative

While President Johnson studied the Kappel report, Congress was also at work on postal reform. On the opening day of the 91st Congress, before Johnson's position could be officially aired, and, even more critically, before the Nixon administration even took office, Representative Dulski introduced his own proposed legislation. His bill, H.R. 4, while agreeing with the basic findings of the Kappel Commission, took radical departure from their primary recommendation. Mr. Dulski feels that total postal reform is possible within the existing Cabinet structure, and frames his bill with this basic assumption. This section will examine the details of H.R. 4 in the basic areas of management and organization, personnel, and finances. In each case the examination will conclude with a contrast with the corresponding provisions of H.R. 11750.

Organization and Management

Chairman Dulski's plan calls for continuation of the Post Office as an executive department structure that Dulski feels will give management the flexibility and control it needs. These include the creation of a Postal Modernization Authority and a Commission on Postal Finances. Both, however, deal primarily with financial aspects and will therefore be discussed later.

Contrast

Aside from the obvious distinction of a corporate structure versus that of an executive department, there are two basic differences in organizational approach between H.R. 4 and H.R. 11750. The first concerns the selection process for Postmaster General and the second the question of management continuity.

As a Cabinet member, the Postmaster General would seem to need the qualities of a good political policy maker. In fact, however, more than one Postmaster General has expressed a feeling of uneasiness and time wasted at Cabinet meetings. He has nothing to contribute to national policy. His job is to carry out the policy decisions of Congress as they relate to postal service. This policy has been unchanged for years: the best possible service at the lowest possible cost. H.R. 11750 recognizes this distinction and seeks long term business managers for its Postal Service. H.R. 4 persists in the four year political appointment.¹

Continuity is frequently noted as a support for H.R. 11750. The operating management under that bill are given indefinite terms of office. The other seven Board members are assigned rotating seven year tours. Given capable Chief Executive and Chief Operating Officers, this means that only one Board member out of nine would change each year. In contrast the entire top management structure of the Post Office Department turns over with each new administration.²

¹A strange sidelight here is that the Postmaster General is the only Cabinet member who requires reappointment at the end of four years even if there is no change in the Presidency.

²The Postmaster General, the Deputy Postmaster General, six Assistant Postmasters General, and the General Counsel. In addition to this Washington hierarchy, all Regional Directors and many lesser positions also turn over.

A final management distinction between the two bills is in the area of employee wages and postal rates. Under H.R. 11750 both of these functions are handled by postal management. H.R. 4 leaves the wage question in Congress and assigns the bulk of rate setting to the proposed Commission on Postal Finances. This approach seems to further fragment, rather than consolidate, control. Both the wage and the rate question will be further examined in appropriate sections to follow.

Personnel

The basic personnel structure under H.R. 4 would remain that of Civil Service. Improved procedures are presented in labor-management relations and a Postal Labor-Management Relations Panel is established. In the event of disputes, either party is free to invoke the aid of the Federal Mediation and Conciliation Service. Should this effort fail to achieve settlement, the Postal Labor-Management Relations Panel may be called in. This Panel will consist of a chairman and two additional members, all appointed by the President, with Senate approval. All members will be appointed to rotating five year terms. Matters referred to the Panel and subsequently decided by it would be binding on both parties.¹

Grievances would be handled according to procedures established through negotiation between postal management and the union representing the employee involved. Should these procedures not result in a satisfactory settlement, the matter would be referred by the Post Office

¹U.S. Congress, House, A Bill to Modernize the United States Postal Establishment, to Provide for Efficient and Economical Postal Service to the Public, to Improve Postal Employee-Management Relations and for Other Purposes, H.R. 4, 91st Congress, 1st Session, 1969, pp. 66-70.

Department to a Department of Labor arbitrator. His decision would be final and binding.

Procedures almost identical to those described above are also provided for supervisors and supervisor's organizations.

Measures to eliminate political influence are also contained in the Dulski Bill. As with H.R. 11750, severe penalties are prescribed for violation of these provisions.

Contrast

Perhaps the most important distinction in the personnel field is that H.R. 4 leaves Congress with the wage setting responsibility for postal employees. Under that system the Post Office would still be without control over its largest cost item. H.R. 11750, on the other hand, gives the Postal Service management a free hand in negotiating directly with the unions on wages and related benefits.

Proponents of the Postal Service Act (H.R. 11750) also point with distaste to the statutory recognition of collective bargaining procedures for supervisors. They feel this will drive supervisors away from management. Under the Postal Service Act, supervisors would be given recognition and responsibilities as managers rather than rank and file employees.

Dispute procedures also differ. H.R. 11750 requires an initial submission of the issue to the Postal Disputes Panel, which may decide against arbitration. Corporation supporters praise the uncertainty of this procedure and claim it will encourage settlement of disputes at lower levels. Opponents (especially the unions themselves) demand the

right of direct arbitration, as what they feel is a balance of power mechanism. It appears they have what may be an unreasonable fear of a management bias on the Postal Disputes Panel.

Finances

It is in the financial realm that H.R. 4 makes its most far reaching reform attempts. Problems of access to revenue, rate setting, transportation, and capital expansion are treated. Transportation improvement are similar to those of the Postal Act and will not be rehashed.

To handle capital expansion, as well as the administration of all existing Post Office facilities, a Postal Modernization Authority is created. This Authority will be a government corporation headed by the Postmaster General and an Executive Director appointed by him.¹ All Post Office property would be held in the corporate name and leased to the Post Office Department.

To finance required improvements and expansion the Authority will have the power to issue bonds to a limit of \$20 billion. These issues will be subject to approval by the Secretary of the Treasury only as regards the date of sale and the maximum rate of interest to be paid. In the event of failure of the Secretary to approve these terms, provisions are made for interim sales to the Treasury. These interim sales are limited to a total Treasury holding of \$500 million and are to be written for a one year maturity.

Also established in H.R. 4 is a Post Office Department Operating Fund. This fund will receive all revenues of the Post Office and will

¹Ibid., p. 29.

be available to the Postmaster General for paying Department expenses. In addition, it will be the repository for Congressional appropriations for public service aspects of postal operations and any deficit the Department may incur.¹

The final measure proposed by H.R. 4 to improve financial management deals with removal of the rate setting process from Congressional authority. To this end, a Commission on Postal Finance is set up to operate every four years for an eighteen month period. This Commission will consist of eleven members appointed from private life. Five will be appointed by the President, and three each by the Speaker of the House and the President pro tempore of the Senate.² These appointees are authorized to appoint an Executive Director and to add such additional staff as they feel appropriate.

Each Commission so appointed would be charged with review of the entire financial structure of the Post Office. This process would include a review of rates on all class of mail, an identification of public service aspects and related costs, an evaluation of the cost accounting procedures in use, and a check on the operation and administration of the Postal Modernization Authority. Upon completion of their review, the Commission would submit a report and recommendations to the President who in turn would submit proposed action to Congress. This proposal would take effect in four months if not previously disapproved by either House of Congress.

¹Ibid., pp. 50-53.

²Ibid., p. 42.

Contrast

Probably the most important financial difference between the two bills is in the area of rate setting. H.R. 11750 gives this power directly to postal management; whereas H.R. 4 gives it to the President through a Commission on Postal Finance. Many believe this latter course to be a step backward since it completely segregates wage decisions (the major postal cost item) and rate decisions (the major revenue source). They argue that even the present system keeps these functions in the same body (Congress) and has, at least, the potential for coordinating the two.¹

Other criticisms compare the expertise and timeliness of the two approaches to rate setting. Under H.R. 11750, the Commissioners would be selected from qualified applicants on a Civil Service register and would serve full time for six year terms. H.R. 4 would leave selection to the President and Congressional leadership and would establish a Commission which existed for eighteen months every four years. Critics maintain that the latter procedure does not insure selection of the best qualified personnel, does not allow for the building of expertise through experience, and fails to recognize the need for a more timely adjustment of rates than the four year cycle permits.

Both measures recognize the need for an ability to raise funds apart from the appropriations process now in effect. Notably, H.R. 4 has a bond limit twice that of H.R. 11750 (\$20 billion versus \$10

¹U.S. Congress, House, Postmaster General Blount testifying before the House Post Office and Civil Service Committee, 91st Cong., August 12, 1969 (Post Office Department Reprint), p. 5.

billion). Aside from the institutional difference (separate Postal Modernization Authority as opposed to an overall Postal Corporation), the major distinction in the bond process is the amount that the Treasury can be required to purchase. Under H.R. 4 it is \$500,000; under H.R. 11750 it is \$2 billion.

Status of the Two Approaches

From the beginning, supporters of the Postal Policy Act knew they were in for a struggle. Their bill was late on the scene and the opposing measure had been introduced by the chairman of the very committee which would consider the reforms. Action in the House, thus far, has been concentrated on H.R. 4 and amendments to that measure. Support for the Postal Policy Act (H.R. 11750) is, however, growing. As late as mid-August, 1969, it was conceded only about six votes in the House Committee.¹ When tested in an October vote, however, it resulted in a thirteen to thirteen tie in an attempt to substitute H.R. 11750 for H.R. 4.² With nearly a year left in the 91st Congress, neither side is ready to concede although Chairman Dulski's bill continues as the front runner.³

A Compromise

Since the beginning of this study a compromise bill has been drafted. It is entitled the "Postal Reform and Salary Adjustment Act

¹Willard Clopton, Jr., "Postal Corporation is Parley Theme," The Washington Post, August 16, 1969, p. C9.

²"Citizens Urged to Write," The Postal Reformer, October, 1969, p. 3.

³See later developments in the next section of this chapter.

of 1970," and incorporates several items that are intended to win over those who oppose H.R. 11750.

The first concession made is the omission of the word corporation. The new postal service would be called the United States Postal Service Authority. An examination of the proposed bill, however, reveals that with one exception the structure under consideration is that of a government owned corporation. Management in the Authority would reside in an Executive Council of thirteen members with broad authority over postage rates, pay scales, postal services, and finances.¹ Under H.R. 11750 these same functions would have been performed by a nine member Board of Directors. The name change of this governing body is insignificant. What is important is the increase in number. Nine of the members would be chosen in the same manner as under the original corporation bill,² but the remaining four would be appointed from the United States Congress.³ Despite this concession to Congressional interests, Post Office officials candidly admit that the basic structure is that of a government corporation.⁴ The general powers listed for the Authority are identical to those previously

¹"Highlights of the New Reform Bill," The Postal Reformer, February 6, 1970.

²Seven appointed by the President and two others chosen by these seven.

³U.S. Congress, House, A Bill to modernize the United States Postal Service, to provide for efficient and economical postal service to the public, to improve postal employee-management relations, and for other purposes, 91st Cong., 2nd sess., 1970, p. 9.

⁴Interviews with anonymous Post Office officials, Washington, D.C., 11 March 1970.

listed for the corporation.¹ In addition, the Authority will be subject to the Government Corporation Control Act.²

Another compromise on this bill exists in the personnel area. Here there will be a new career postal service but it will remain within the Civil Service framework.³ Wages, however, will become a subject for negotiation rather than Congressional determination.⁴ As an additional concession to the postal unions, a postal pay raise is incorporated in the bill.⁵

The final significant compromise exists in the formation of a thirteen member Advisory Board. This group would consist of the Director General and the Deputy Director General of the Authority plus eleven additional Presidential appointees--four representing postal labor, four representing major mailers, and three representing the public at large. Its function will be to advise the Executive Council on rates, services, and employee compensation.⁶

Aside from these three compromise areas and several insignificant name changes in some of the operating and advisory elements of the service, the compromise measure conforms closely to the corporation bill, H.R. 11750. Both measures provide the following critical reforms:

¹Ibid.

²U.S. Congress, House, A Bill to Modernize the U.S. Postal Service, p. 16.

³Ibid., p. 50.

⁴Ibid., p. 59.

⁵Ibid., pp. 145-148.

⁶Ibid., pp. 17-18.

1. The service is removed from the Cabinet and the Congressional appropriations process.
2. Wages are subject to collective bargaining.
3. Rates are set through a panel of expert rate commissioners.
4. Authority for financing through bond issuance is provided.¹

In a surprise move on March 12, 1970, the House Post Office and Civil Service Committee voted seventeen to six to approve this compromise bill.² Thus the corporation plan, although it still faces opposition on the House floor and in the Senate, seems to have overcome its first major Congressional hurdle.

¹"Citizens Committee Backs New Bill," The Postal Reformer, February 6, 1970.

²"House Panel, in Surprise Step, Approves a Postal Reform Plan Similar to Nixon's," The Wall Street Journal, March 13, 1970, p. 6.

CHAPTER V

A LOOK AT EXISTING COMPETITION

Having viewed the question of a postal corporation, in terms of the present legislative alternatives, the discussion will now be expanded to touch on the question of a privately operated, federally regulated postal service. It must be remembered that the Kappel Commission rejected this idea primarily because of the difficulties in initial financing.¹ Let's look then at present competition in those areas not under Post Office monopoly.

The Independent Postal System of America (IPSA)

Drawing on the Kappel Commission's findings that nearly three-quarters (74 per cent) of all mail is originated by businesses,² the private sector is trying to exploit the businessman's desire for economy and reliability of service by offering him an alternative delivery system.

Perhaps the most ambitious recent effort in this regard is being made by an Oklahoma City based firm called The Independent Postal System of America (IPSA). Founded in February of 1968, this endeavor is presently concentrating on the highly profitable "junk" mail segment

¹Report of the President's Commission on Postal Organization, Frederick R. Kappel, chairman (Washington, D.C.: Government Printing Office, 1968), p. 2.

²Ibid., p. 91.

of the market but intends to expand operations into both the second (newspapers and magazines) and fourth (parcels) class areas. The system's founder and president, Tom Murray, has found his guaranteed delivery, lower rate service to be highly attractive to clients. Such large mailers as Sears, Montgomery Ward, J. C. Penny, Kroger, Western Auto and McCrory have largely abandoned the U.S. mails for their catalog and advertising needs in areas where IPSA service is available.¹

Starting with 27 carriers and a single mail truck, Murray's operation has now spread to over 60 cities in 34 states and employs 1,500 bonded carriers. The system is run on a franchise arrangement and currently has almost 2,000 additional applications in process.² Franchising was chosen primarily because it was the most rapid means of expansion available, but also because Murray felt that the \$50,000 required would help insure efficiency at the local level.

IPSA operations should reach all fifty states within another year. Murray foresees revenue of \$2 billion by 1975 and employee strength of 500,000 within a decade. To handle this growth plans call for 30,000 delivery trucks, an airline, and an \$18 million computer complex to link the anticipated 4,000 IPSA stations.³

One of IPSA's biggest problems at present is recruiting a labor force. About one-third of the present personnel strength consists of college students and housewives working part time. The pay

¹"Tom Murray to Run Longest Race Yet," Generation, September, 1969, p. 20.

²Sterling F. Green, "Private Postal System is Found Less Costly," The Washington Post, November 27, 1969, p. H4.

³Ibid., p. 20.

scale is presently slightly below that of the average postal employee, but Murray plans to have it on an equal footing within a year.

Because of IPSA, an interesting sidelight of the "Postal Monopoly" will soon be challenged in court. It appears that it is illegal for anyone but the U.S. Post Office Department to put anything in a residential mailbox. Murray contends that the mailbox is the homeowner's property and open to anyone to whom he (the owner) grants access. In the interim IPSA uses plastic bags which attach to door-knobs. A potential loss on this item was turned to profit by selling advertising space on the bags.¹

Parcel Service

The original intent of Congress in 1912 when it established parcel post service seems to have been the exploitation of revenue producing possibilities along certain routes only.² During the course of deliberations however the service was extended to give nation-wide coverage. This decision eventually allowed private competition to concentrate on the more profitable areas while the Post Office had to fashion its rate structure to fit a much larger base. Since there is no postal monopoly in this class of mail, the Post Office is required to cover all costs with its revenue.³ Despite somewhat of a disadvantage in rates, the Post Office does in practice provide a competitive price in most cases.

¹Ibid., p. 22.

²President's Commission, Annex III, p. 2-49.

³Ibid.

It is in the area of service that the Post Office is losing ground to such agencies as Greyhound, Railway Express (REA) and United Parcel Service (UPS). The Post Office requires almost all senders (even large mailers) to deposit their parcels at the Post Office and provides no reliable delivery schedule.¹ Greyhound requires delivery to and pick up from their terminals but has a highly reliable three day service anywhere in the continental United States. REA has a far less certain schedule, but does provide pick up and delivery services. UPS concentrates on businesses rather than individuals and seems able to provide them the best service. It provides both a reliable schedule and pick up and delivery. UPS presently operates in thirty-seven states and has applications submitted for extension into nine others.²

One of the major problems facing the Post Office in the parcel service is that of transportation. Most parcels go via surface transportation which for the most part means by rail. Whereas the decline of the U.S. railroad service was overcome in the case of letters by use of the "airlift" concept, the costs involved in airlifting parcels is too high. Thus the parcel is, at least for the present, destined to continue on the railroads despite some unreliability of service.³ Private mailers overcome this difficulty by the use of common carriers on the highways. As noted earlier, this avenue is restricted for the Post Office.

¹Ibid.

²Ibid., p. 2-50.

³Ibid., p. 2-51.

The requirement for delivery of parcels to the Post Office for mailing also has an adverse effect on other patrons. A frequent customer complaint about the Post Office is the long waiting period encountered in conducting business in a Post Office lobby. While it is certainly not the sole cause of this delay, the relatively complicated nature of a parcel transaction certainly aggravates the situation.

Implications of Competition

At present only about 1 per cent of Post Office volume consists of parcels. Of that 1 per cent, only 10 per cent involves individuals mailing.¹ Using an approximate total mail volume of eighty billion pieces, this means that each man, woman and child in the U.S. originates less than one parcel shipment every two years. The remainder of the eight hundred million parcels is business originated.

With the existence of organizations such as the United Parcel Service and Railway Express, the question of whether the Post Office ought even to continue in the parcel business arises. In many cases where there is a choice of service, businessmen seem to prefer the privately owned service. Because of the small volume involved, justification from a public service standpoint must be questioned.

The possibility that the mails, and in particular parcel post, help to subsidize the railroads needs also to be considered. The existence of such a subsidy is not in question. From their earliest years the railroads have been helped by the mail service they provided. There is also little doubt that the railroads are presently in need of

¹President's Commission, p. 89.

financial help. But why should the Post Office conduct what is essentially a business operation merely to subsidize railroads? Surely a direct subsidy would be more efficient.

These arguments for reduction or elimination of parcel post service are, of course, not conclusive. Rather they suggest issues which need further examination if the Post Office is to successfully cope with this troublesome problem.¹

In contrast to parcel service, "junk mail" holds a substantial volume of nearly 23 per cent of the eighty billion total pieces of mail.² Again, however, the existence of efficient, willing, private competitors must raise the question of its value as a federal service. This segment of the mail is exclusively business originated and has, therefore, little claim to a public service justification. Distribution is generally local, so there is no transportation subsidy argument. Although advertising in general is a stimulant to the economy, this hardly appears reason for the Post Office to engage in it. Other agencies are directly charged with economic stimulation. Present indications are that the private sector can provide the service economically.³ If this is the case, the economy would perhaps be better stimulated (and federal funds best preserved) by yielding this service to the private sector as rapidly as it can handle it.

The mailing of newspapers and magazines is an area that has not seen effective private competition. Nonetheless, especially in light

¹Ibid., Annex III, p. 2-53.

²President's Commission, p. 47.

³IPSA has the support of many large mailers in all areas in which it operates.

of IPSA's announced intention to go into this aspect,¹ it too bears questioning. At one time in our history the newspaper was the sole means of mass communications. As such it was viewed as a valuable public service and carried at preferential rates in the mail system. This value, while still present, has decreased with the supplement available through radio and television. Many magazines, which also enjoy reduced bulk rates, are relaxation oriented and largely commercial in extent.

Summary

In its report on the Post Office the Kappel Commission remarked, "Were the postal system being started today, it might well be operated by a privately-owned regulated corporation not unlike the companies which operate other communications and transportation services in this country."² Their rejection of this organization form was not on ideological grounds but rather on the basis of financial considerations.³ It was felt that no private concern would be willing (or able?) to totally assume a business with requirements for such vast capital expansion and a history of large operating deficits. Nonetheless, since they attributed only 3.8 per cent of total postal costs to public service aspects of the service,⁴ they suggested that this question be left open for consideration at a later time.⁵

¹Generation, p. 20.

²President's Commission, p. 2.

³Ibid., p. 54.

⁴Ibid., p. 140.

⁵Ibid., p. 2.

This chapter has shown that there are at least some aspects of postal services that are being successfully pursued by the private sector. It is recognized, of course, that the examples cited are not regulated in the public utility sense that the Kappel Commission envisioned. They are highly profit oriented and concentrate almost exclusively in large urban areas. Were these services (or the total postal system) turned over to the private sector this situation would be intolerable. The possibility exists however, that at some future date the Post Office will become financially sound enough to interest the private sector in a partial¹ or total takeover on a regulated utility basis. Should this day arrive, the question of continuation as a public service rather than as a public utility must be reexamined.

¹Partial in the sense of complete operation of some aspect of service, not in the sense of providing service only in high profit areas.

CHAPTER VI

SUMMARY AND CONCLUSIONS

This study opened with the basic research question of whether or not the Post Office ought to be reorganized as a government corporation. In pursuing this question, several underlying issues were examined. It seems proper, then, that before addressing the basic question, each of these other issues be considered.

Efficiency and Effectiveness

In considering the question of Post Office efficiency, there appear to be two levels of thought. To the average citizen, service seems adequate.¹ He uses the mails primarily for business transactions, and probably gives little thought to a six cent postage for delivery anywhere in the country. The image of the Post Office for the average American is not that of an Executive Department in Washington, but rather that of his local Post Office and, more particularly, his own postman. In general, that image is good.²

Objectively, or at least as objectively as such bodies as Congress, the Kappel Commission, large mail users, and others can view it, the image is different. To them, while service may be good, it is

¹Report of the President's Commission on Postal Organization, Frederick R. Kappel, chairman (Washington, D.C.: Government Printing Office, 1968), Annex I, p. 152.

²Ibid.

not nearly as good as it could and should be.¹ The postal deficit is a very real item at this level. It means that roughly a billion dollars a year is being drained from the U.S. Treasury, or, more concretely, from programs such as urban renewal, medical research, education, pollution control, and welfare.

Aside from the deficit, these groups see a sorry capital structure in the Post Office. Buildings are old and poorly located;² equipment purchases are not keeping pace with technological advancements;³ research and development is just beginning.⁴

At the root of these problems, there lives an ineffective management. This condition exists not through any fault of the managers themselves, but rather because of controls held by groups outside the Post Office Department. Effective management tools simply do not exist for the Post Office.⁵

It seems, then, that the postal service is not doing so well. There may or may not be breakdowns similar to that in Chicago in 1966, but it appears that without some sort of reform a postal deficit and a system of administration rather than management is certain to continue.

¹The Kappel Commission, for instance, conservatively estimates savings potential of 20 per cent.

²President's Commission, p. 16.

³Ibid., p. 26.

⁴Ibid.

⁵This is the "no control" concept discussed in Chapter III.

Business Enterprise, Public Service, or Both

As pointed out in Chapter II, the Post Office has served a variety of purposes over the years. Started as a source of revenue for the British Crown, it has journeyed through periods as a stimulant for infant transportation industries, and of support for public news media. Now, however, the need for these latter uses is being questioned. There are other reliable modes of communications available; transportation is no longer an infant and, although it still needs help, there are programs of direct aid available; the paper news media is not the single vital source of information it was in the days before radio and television.

With some of these early purposes being debated, the public service argument for the Post Office is greatly weakened. It is certainly a vital service, but so are electric, water, gas, and telephone service. True public service exists only when private parties are unable or unwilling to provide a vital need or are unable to provide it as well as the government. It must then be provided by the government as a public service. The rise of competition in some areas of postal service seems to indicate a desire by the private sector to provide this service. The Kappel Commission believed that private enterprise was the proper setting for the Post Office. The organization they envisioned was that of a regulated public utility. This concept was rejected only because in its present financial state no one would be willing to accept the Post Office.¹

¹President's Commission, pp. 53-54.

There are some areas of public service in the Post Office. Items such as free or reduced rates for the blind, educational institutions, and non-profit organizations are services properly provided by the public sector.¹ The question remains, however, whether such items are large enough to merit labeling the entire Post Office function a public service.

Business aspects of the Post Office are more clearly seen. Service is provided to identifiable patrons for a specified charge. The greatest users of the mail are businessmen. The bulk of mail itself is business oriented.² These facts are not easily dismissed when considering the business nature of the Post Office.

It appears that the public service identification of the Post Office is the result of inertia. The service has always been provided by the Federal Government. Such a long tradition establishes a public service orientation that may be hard to overcome.

The Postal Deficit

Defined simply, the postal deficit is the excess of costs over revenues. It is the composition of this deficit that is of interest. Part of it results from deliberate subsidizing of portions of the service; part from the inability of present rates to cover associated costs. The first part of the deficit is written off as a public service allowance; the second as an operating loss. At present the split is about fifty-fifty.³

¹Ibid., p. 138.

²Ibid., p. 48.

³Ibid., p. 141.

The Kappel Commission devoted considerable study to the public service allowances. Their conclusions showed a "true" ratio of about four to one between operating losses and public service allowances. The two largest items redefined were the rural allowance and the accounting basis for calculating the subsidy figures.

The loss on operation of rural post offices is presently considered a public service loss. The very existence of a postal service in rural areas, however, creates value throughout the system. The loss, then, is better thought of as a subsidy to the system as a whole rather than as a public service allowance.¹

In calculating subsidies, the present practice is to compare the rate charged with the fully allocated costs of providing it. This practice neglects the fact that even normal rates may not be covering full costs. The proper basis for a subsidy should, therefore, be the difference between the rate charged and the normal rate. The excess is a deficiency in rates not a public service allowance.²

With these two adjustments, and smaller ones in the areas of special and non-postal services, the operating loss assumes a far greater proportion of the deficit. In other words inefficiency plays a larger role.

Financing the Deficit

The question of how to finance the postal deficit is closely interwoven with the definition of the deficit and the public service versus business debate. Were the Post Office primarily a public

¹Ibid., p. 138.

²Ibid., p. 140.

service, it would seem entirely reasonable to finance all losses out of general tax revenue. Having defined postal activities as primarily business in nature, this reasoning breaks down. Under a business orientation, only those items identifiable as public services should be financed. All other losses should be eliminated by a combination of increased internal efficiencies and an adequate rate structure.

As for financing the public service areas, three courses seem open. They could be tax financed; they could be changed to direct grants from the appropriate government agency to the institutions concerned; or they could be borne by the postal system as a whole without recourse to the tax structure.¹ I favor the direct subsidy as the best approach. The inclusion in the Post Office budget of what is essentially a subsidy from some other agency seems to unduly complicate an already involved federal government. Were this approach not accepted, I would have a strong preference for the absorption by rates over the tax mechanism. The extra cost to the service would seem a small price to pay for the chance to avoid completely the Congressional appropriations process. It should be noted, however, that both legislative proposals studied in this paper have resorted to tax financing for public service allowances. Perhaps the timing is not yet right for a complete break from the tax structure.

Reform Possibilities

Having set the background, the basic question can now be considered. With the underlying assumption that some reform is necessary,

¹Ibid., pp. 140-142.

is a government corporation the best vehicle for that reform? At the present time, I believe it is.

Reform is, of course, possible in almost any organizational form. As will be recalled from Chapter III, the Kappel Commission's basic charge was to seek the structure which could best house effective reform. In pursuing its task, the Commission considered a continuum spreading from a privately owned, government regulated corporation to retention of the present Cabinet status. Within these limits were three other alternatives--a postal agency, a government corporation, and a government corporation with maximum private participation.¹ The major concern of this paper has been an examination of the two extremes and of the mid-range concept of a government-owned corporation. Before reexamining those possibilities, a brief discussion of the two remaining options is in order.

The postal agency can best be described as a compromise between the Cabinet and the corporate structure. Its advocates recognize that postal service is not a major function of the Federal Government but still feel that it should be a government service activity.² They see a more concentrated approach to management control through the use of devices such as revolving funds for both operations and capital budgeting.³ Critics of this approach claim it falls short of addressing the real issues and that it weakens present Congressional control without providing suitable economic substitutes. They point to the facts that

¹"Options Considered by the Kappel Commission," Congressional Digest, March, 1969, pp. 72-74.

²President's Commission, Annex 1, p. 192.

³Ibid., p. 193.

replenishment of both revolving funds would still be subject to the appropriations process, that Congress would still control wages and rates, and that break-even operation would not be an objective.¹

These conditions would lead to a continued dissolution of management and a possible erosion of protection for the public interest as the administrators pushed their own special interests.²

This alternative was not subjected to detailed scrutiny in this paper for two reasons. First, it does not sufficiently address the real issues of operation as a public service versus operation as a business, and public versus private operation. Secondly, it was an option rejected by the Kappel Commission and is not now the subject of proposed legislation.

A government corporation with maximum use of private participation is the other alternative which has not received detailed study here. This form is identical to the corporation plan described in Chapter IV with one major exception. Under this plan widespread use of private contractors would be encouraged.³ Acceptance of such a plan would, of course, presuppose a leaning toward the corporate structure and a rejection of complete private operation. Thus, while it may still be an acceptable option, it was not studied here because it compromises the issue of private versus public operation and, again, is not the subject of current legislative debate.

¹Ibid., pp. 194-195.

²Ibid.

³Ibid., p. 203.

These leave us with the two options presented in Chapter IV--reform within the existing structure and change to a government corporation--and the third discussed in Chapter V--a private operation. Reform within the Executive Department setting is the reform alternative offered by Representative Dulski in H.R. 4. Although this measure would undoubtedly result in some degree of better postal performance, it falls short of the change needed in several key areas. While finances would be vastly improved through Dulski's Revolving Fund and Postal Modernization Authority, the major cost item (pay) and the major revenue item (postage) would still be controlled by forces outside the Post Office. Thus the "Postal Complex" with its dispersed management would continue to exist.¹ The retention of Congressional wage setting also strips Post Office management of an opportunity to establish effective collective bargaining.² A vital need for continuity of top level management is also neglected by this approach. The Postmaster General and his principal assistants would continue to be political appointees with their term in office conditioned by their party's ability to retain the White House.³

The corporation proposal on the other hand presents its case by stressing consolidated management control.⁴ Under this form, Post Office management would have operating control over all its revenue

¹President's Commission, Annex 1, p. 188.

²U.S., Congress, House, Postmaster General Blount speaking before the House Post Office and Civil Service Committee, 91st Cong., 1st Sess., August 12, 1969, (Post Office Department Reprint), p. 8.

³Ibid., p. 4.

⁴President's Commission, Annex 1, p. 200.

and cost items. It would operate as the business oriented entity it is, but still serve the public interest by responding to policy guidelines and reviews established by the Congress.¹ The point to be noted is that as long as the Post Office performs effectively and efficiently in this new role, its day to day management will not be infringed upon. The corporation proposal also provides a basis for meaningful collective bargaining by inclusion of wages as a negotiable item. Continuity is provided in a board of directors. Seven of these serve staggered seven year terms, while two are permanently appointed, full-time, operating managers removable only for cause.²

Further general support for the corporation concept (although not in reference to the Post Office) is given by two noted administrators-- C. H. Pritchett (one of the original directors of the TVA) and Harry S. Truman. Pritchett listed the corporation advantages as follows:³

1. Financially autonomous, thus escaping the strict financial framework of ordinary government agencies.
2. Semi-private status confers some degree of freedom from many government regulations that tend to sacrifice efficiency for scrupulous legality.
3. Board of Directors--General Manager concept which provides long term expertise and avoids political influence.
4. Limits in various degrees the sovereign immunity of the Federal Government when it undertakes a commercial venture. For example the corporation can be so chartered that it is subject to state laws and taxes and can sue and be sued.

¹Ibid., pp. 200-201.

²Blount, p. 4.

³C. H. Pritchett, The TVA--A Study in Public Administration (Chapel Hill, North Carolina: University of North Carolina Press, 1943), p. 23.

5. Administrative decentralization and local autonomy.

In his 1948 budget message President Truman commented on the proper uses of government corporations:

Experience indicates that the corporate form of organization is peculiarly adapted to the administration of governmental programs which are predominantly of a commercial character--those which are revenue producing, or at least potentially self-sustaining, and involve a large number of business-type transactions with the public.

In their business operations such programs require greater flexibility than the customary type of appropriation budget ordinarily permits. As a rule the usefulness of a corporation lies in its ability to deal with the public in the manner employed by private business for similar work.

In retrospect, this description seems an exact fit for the Post Office.

A final consideration must now be made of the extreme option of complete private operation under federal regulation. As noted in Chapter V, this option is both financially and politically moot. The public sector will not give it up and the private sector doesn't want it. I submit, however, that these factors may change and that this alternative should be kept in mind for the future as suggested by the Kappel Commission.¹

The solution for the present, then, must be a postal corporation with the threefold goal of providing dependable service responsive to the public's needs, eliminating all but public service portions of the postal deficit, and providing better working conditions and increased career opportunities for its employees.

¹President's Commission, p. 2.

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